

COUNTY OF MILWAUKEE

Interoffice Memorandum

DATE: February 4, 2015

TO: Milwaukee County Board Supervisors

FROM: Supervisor Michael Mayo, Sr., Chairman, Pension Study Commission

SUBJECT: **Review of Proposed Amendments to Chapter 201.24 of the Milwaukee County General Ordinances to be Compliant with ERS's Operation and Administration and to Prospectively Eliminate Purchases of Service Credit and Optional Membership in ERS (File No. 15-31)**

The Pension Study Commission (PSC) is charged with issuing a written report on the actuarial effect, cost implications and desirability of proposed changes to the pension system. At its meeting on February 3, 2015, the PSC reviewed File No. 15-31, which outlines proposed amendments to Chapter 201.24 of the Milwaukee County General Ordinances (M.C.G.O.) to be compliant with the Employees' Retirement System (ERS) operation and administration and to prospectively eliminate purchases of service credit and optional membership in ERS. The changes were approved and unanimously recommended for adoption by the Pension Board of ERS. The PSC reviewed an amended resolution/ordinance that was unanimously recommended for adoption by the Committee on Finance, Personnel and Audit at its meeting on January 29, 2015.

The PSC heard testimony from Pension Board attorneys related to certain purchases of pension service credit that had been administered in various ways contrary to the plan's provisions. This resulted in operational errors under the Internal Revenue Service (IRS) Code because of failure to follow the plan's terms. To begin the process of correcting the errors, Milwaukee County reported the errors to the IRS in 2007 through the IRS's Voluntary Correction Program (VCP). A detailed summary of the issue and proposed solution is attached to this file.

The PSC was told by the Pension Board attorneys that over 300 members of ERS had completed purchases of service credit without any administrative errors and those purchases of service are valid and recognized. With approval by the IRS, the proposed ordinance amendments would resolve the purchase of service credit errors related to another 217 members of the ERS. An amendment approved by the Committee on Finance, Personnel, and Audit at its recent meeting would resolve the errors related to an additional six members of the ERS, for a total of 223. The purchases of service by approximately 8 remaining members were not recommended for correction through ordinance amendments by the Pension Board and would not be corrected.

The PSC also reviewed the written actuarial reports dated July 7, 2014 and January 28, 2015, and heard testimony from Mr. Larry Langer of Buck Consultants Inc., the firm retained by the Pension Board and the County to provide actuarial services related to the ERS. Mr. Langer's report and testimony indicated that the actuary previously assumed the purchase of service credits were valid and has factored the related liabilities into the annual valuation reports and annual required pension contribution amounts, as the purchases were completed by members. Consequently, the adoption of the ordinance amendments to correct the errors associated with

the purchases of service credit would not increase future pension contributions over the pension contribution amounts already calculated for the pension system.

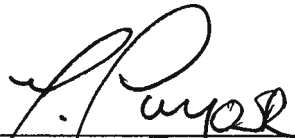
The PSC was also made aware of pending and threatened litigation related to this issue and the challenges the County and ERS face in either recouping past pension payments from affected ERS members, reducing future pension payments, or both, if the proposed ordinance amendments are not adopted.

The PSC heard testimony from Mr. Langer that if the ordinance amendments are not adopted and future pension benefits are reduced (or terminated) as a result of the elimination of service credit associated with the purchases in question, actuarial liabilities and future contributions would be decreased by approximately \$9.3 million, or a reduction of \$600,000 in the annual pension contribution. This amount may be partially offset based on litigation costs or may be precluded entirely by adverse legal decisions related to any efforts to reduce pension payments due to County administrative errors.

The PSC also was informed by Pension Board attorneys that although the Pension Board had administratively terminated purchases of optional service, the Pension Board recommendation includes ordinance amendments to eliminate any future purchases of pension service credit. Eliminating such purchases eases the administration of the pension system and avoids future errors.

Based on the information presented and contained in File No. 15-31, the Pension Study Commission voted (Vote 4-0) to recommend that the County Board adopt the proposed changes to the pension ordinances as outlined in the amended resolution adopted January 29, 2015, by the Committee on Finance, Personnel, and Audit.

Respectfully submitted,



Michael Mayo, Sr., Chairman
Pension Study Commission

cc: County Executive Abele
Paul Bargren, Corporation Counsel
Mark Grady, Deputy Corporation Counsel